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AQUITAINE COMPANY OF CANADA LTD.

ANNUAL REPORT 1968

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AQUITAINE COMPANY OF CANADA LTD.
ANNUAL REPORT 1968

BOARD OF DIRECTORS

William D. Clark
Secretary, Aquitaine Company of Canda Ltd.
Calgary, Alberta

Neil F. Phillips
Partner, Phillips, Vineberg, Goodman, Phillips and Rothman
Montreal, Quebec

Louis J. Pradal
Executive Vice President, Aquitaine Company of Canada Ltd.
Calgary, Alberta

Gilbert Rutman
President, Aquitaine Company of Canada Ltd.,
Vice President Exploration and Production, and Member of the Executive Committee, Société Nationale des Pétroles d'Aquitaine
Pau, France

OFFICERS

Gilbert Rutman	*President*
Louis J. Pradal	*Executive Vice President*
Andre Dumestre	*Vice President, Exploration*
William D. Clark	*Secretary*
Michel Rapaccioli	*Treasurer*

HEAD OFFICE: *1300 Calgary House, 550 - 6th Avenue South West*
Calgary, Alberta, Canada

AUDITORS: *Touche, Ross, Bailey & Smart*

TRANSFER AGENT AND REGISTRAR: *Montreal Trust Company*

EXCHANGE LISTINGS: *Toronto Stock Exchange, Montreal Stock Exchange*

AQUITAINE TOWER
Progress on December
31st, 1968

THE MODEL

Symbolizing the Permanence
of
Aquitaine in Canada

PRESIDENT'S REPORT
on behalf of the Board of Directors

A major development in the short history of Aquitaine Company of Canada Ltd. took place in late 1968 when for the first time shares of the Company were offered to the public.

After five years as a privately owned subsidiary of Société Nationale des Pétroles d'Aquitaine, the Company had become firmly established in the Canadian oil industry, with rapid growth in reserves, production, revenue and net income. Having thus achieved a reliable base for long term Canadian operations, Aquitaine Company of Canada Ltd. invited public participation in the Company and successfully placed 1,100,000 shares, representing 6.67% of its equity capital, in Canada. At year end the shares were listed in the industrials section of the Toronto and Montreal stock exchanges.

As had been forecast, all the measurements of growth showed improvement in 1968. Net income exceeded $5,012,000, an increase of some $1,467,000 over 1967. Cash flow amounted to $6,250,478, an increase of $2,074,444. Other financial figures are found elsewhere in this report.

The Company pursued its previous policy of acquiring and exploring large new areas, with the objective of finding major reserves. The excitement now shown by the industry in the Strachan-Ricinus play in southwestern Alberta illustrates the success of the Company's early participation in this area, where it holds over 71,855 net lease and reservation acres.

Rainbow and Zama in northwestern Alberta again contributed substantially to the fruitful exploration activity of the Company and its partners in those areas, where 4 reservoirs of oil and 1 of gas were discovered in 1968. The Company's net share of production from this region reached 21,000 barrels daily by year end.

The accelerated oil operations in Northern Canada find Aquitaine well represented, with favorably located acreage in the MacKenzie Delta and Arctic Islands. Much of this land is owned 100% by the Company.

Exploration in the Hudson Bay, where Aquitaine is operator for two groups, advanced substantially and satisfactorily during the year. Following completion of a 3248 mile marine seismic study of the area, the decision was made in early 1969 to drill in mid-Hudson Bay during the coming summer. The Company's net acreage in the Hudson Bay play is in excess of 22.5 million acres.

Aquitaine Tower, the Company's twenty-storey office building in downtown Calgary, is nearing completion, and occupancy of this attractive structure is expected to be available in mid-summer.

In summary, the Company has concluded an active and rewarding year, the best in its experience to date. Prospects for 1969 appear encouraging, and further improvements in revenues are foreseen.

G. RUTMAN *President*

EXPLORATION

Two main factors stand out in the exploratory activity of Aquitaine Company of Canada Ltd during 1968: a large increase in the Company's acreage position, particularly in the northern basins; and the discovery of a thick sour gas reservoir at Strachan in Central Alberta.

Most significant for the Canadian oil exploration industry in 1968 has been the impact of the Prudhoe Bay discovery in northern Alaska. This discovery, dramatically proving the existence of major oil reserves in the Arctic, has prompted a rush for available acreage in the Canadian northern basins which later spread to the other, less explored areas of Canada, principally offshore.

Although the Company had somewhat anticipated this movement by acquiring substantial positions in the North West Territories, MacKenzie Delta and Hudson Bay in previous years, the Company significantly increased its total acreage in these areas during the past year.

At the end of 1968, the Company's over-all net acreage stood at over 30,000,000 acres (83,000,000 gross acres), an increase of 25,000,000 net acres (71,000,000 gross) over 1967.

In Central Alberta, an important discovery of sour gas was made in June 1968 by the Banff-Aquitaine team (Aquitaine 90%). This discovery proved the existence of major gas reserves in a deeply buried, thick Devonian reef reservoir.

Exploration and development operations have been carried out in the general Rainbow area, but on a reduced scale compared to previous years.

Elsewhere, an active exploration programme has been taking place on Aquitaine's most promising acreage, particularly in British Columbia and the Northwest Territories. The Company's extensive holdings in the Hudson Bay have been subjected to a major seismic survey which yielded drilling locations to be tested in 1969.

In summary, Aquitaine participated in the drilling of 27 exploratory wells in 1968, of which 5 found oil, 4 found gas and 18 have been abandoned. Of the abandoned wells, 4 were drilled at no cost to Aquitaine.

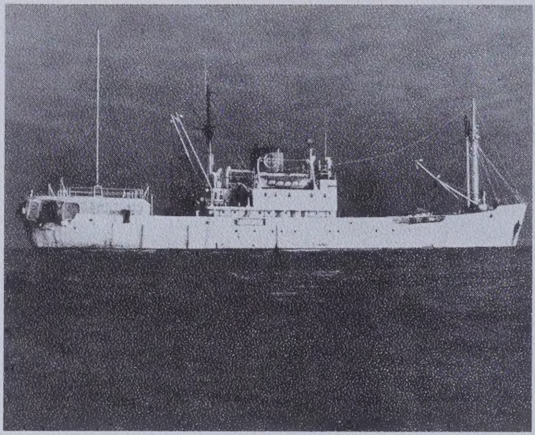
Seismic Shot, Strachan Area

See Detail Map Page 6

See Detail Map Page 7

See Detail Map Page 9

See Detail Map Page 8



C.G.G. Andromede

Hudson Bay Area

(Manitoba, Ontario and offshore)

The two groups of oil companies led by Aquitaine have been very active during 1968 in the Hudson Bay area. A land seismic survey was carried out on the permits of the Sogepet block (Aquitaine 25%) along the southern shore of the Bay.

During the summer, an extensive refraction seismic survey covering over 3000 miles was carried out in the Bay, mostly on the Arco block of permits.

Following the results of the latter seismic survey, drilling locations were selected to be drilled in 1969.

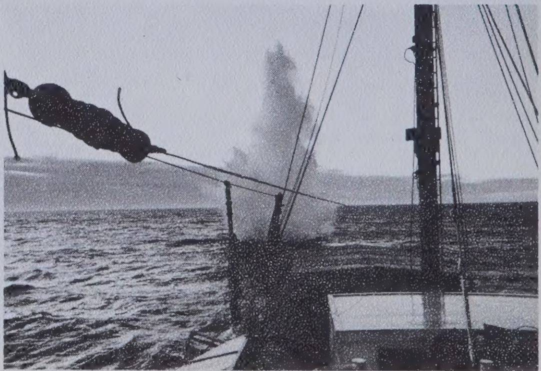
After exercise of options on the Arco block and applications for new permits, Aquitaine total acreage in the Hudson Bay Basin now stands at 21,700,000 net acres (70,850,000 gross acres).

Mining Exploration

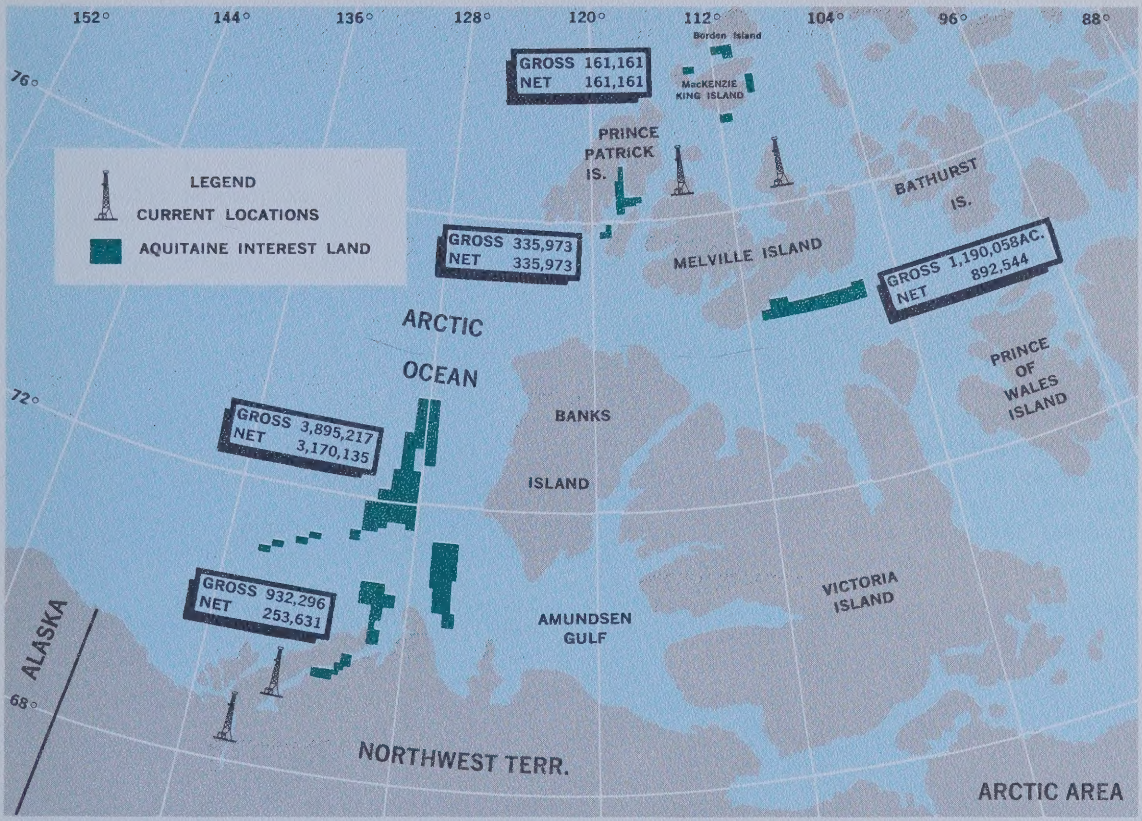
The Company, in 1968, initiated reconnaissance mining surveys for uranium and other minerals. Four geophysical reservations were acquired in Manitoba, at a short distance from the Hudson Bay. Total acreage involved is 311,000 net acres (414,700 gross acres).

Geophysical detail and core drilling is expected to take place in 1969 and early 1970.

The Company is planning to actively pursue exploration for minerals through 1969.



Shooting in Hudson Bay



Northwest Territories

(including Arctic Islands and Beaufort Sea)

At the end of 1968, Aquitaine's acreage in the Territories stood at 6,100,000 net acres (7,750,000 gross), an increase of 4,000,000 net acres in the past year.

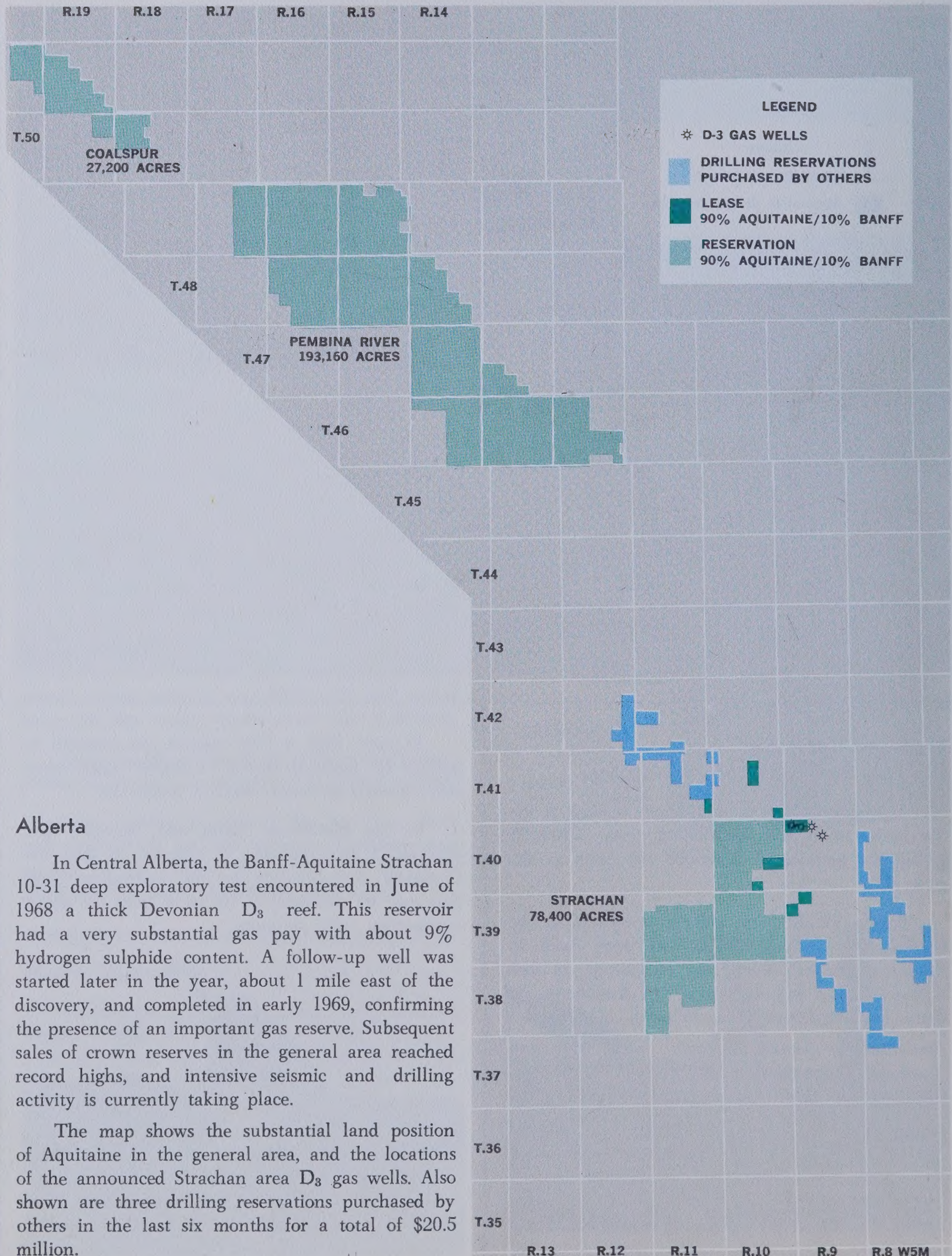
Nearly all this new acreage is located in the northernmost basins, thought the most likely to have a geological environment comparable to that of the Prudhoe Bay discovery. The breakdown for these new acquisitions is as follows:

Arctic Islands (Mostly offshore) 615,000 net acres
MacKenzie Delta (Shallow water) 306,000 net acres
Beaufort Sea (Deep water) 2,868,000 net acres.

Acreage in the Arctic Islands was selected and filed by Aquitaine, principally in the Sverdrup Basin where the Panarctic Group has been conducting seismic surveys in 1968 and where the 2 wells indicated on the map are presently in the preparation stage.

In early 1969, a 75% interest was acquired in permits off Melville Island (1,190,000 gross acres, 892,500 net), previously filed by Banff Oil.

In the MacKenzie Delta and Beaufort Sea, Aquitaine's land position is believed to give the Company representation in the interesting plays that may be envisaged in the area, once the active exploration fully develops.



Alberta

In Central Alberta, the Banff-Aquitaine Strachan 10-31 deep exploratory test encountered in June of 1968 a thick Devonian D_3 reef. This reservoir had a very substantial gas pay with about 9% hydrogen sulphide content. A follow-up well was started later in the year, about 1 mile east of the discovery, and completed in early 1969, confirming the presence of an important gas reserve. Subsequent sales of crown reserves in the general area reached record highs, and intensive seismic and drilling activity is currently taking place.

The map shows the substantial land position of Aquitaine in the general area, and the locations of the announced Strachan area D_3 gas wells. Also shown are three drilling reservations purchased by others in the last six months for a total of $20.5 million.

Drilling at Rainbow

In Northern Alberta, activity in the general Rainbow area continued at a slower pace than in the recent past. A total of 11 exploratory wells were drilled at Rainbow, resulting in 4 oil and 2 gas completions. At Zama, an exploratory well (Aquitaine 37.5%) resulted in an oil discovery. Seismic surveys were carried out in the Rainbow, Zama, and Steen-Bistcho areas.

Clearing seismic line through heavy timber

British Columbia

Seismic surveys were started in 1968 on the Company's holdings in the Fort Nelson basin. Simultaneously, a programme of acquisitions was carried out bringing the Company's net acreage to nearly 600,000 acres, as compared to 500,000 net acres at the end of 1967.

Saskatchewan

In Southern Saskatchewan, geophysical operations (seismic and gravity) were carried out in preparation for the Pheasant project (an industry joint undertaking for exploration of the Winnipegosis reef objective). Most of the Pheasant project wells have been drilled in late 1968 and early 1969 without encouraging results.

Outside the Pheasant project, wells have been drilled to the Winnipegosis objective and abandoned during 1968.

In the Cold Lake area of western Saskatchewan, 2 wells were drilled in the summer of 1968. One of these wells resulted in the discovery of gas in the Blairmore sands. After the company had acquired a sizeable acreage position in the general area (over 700,000 gross acres and 320,000 net acres at the end of 1968), an exploration programme was launched in early 1969 to determine the potential of the area.

First Gas Well at Cold Lake - Pierceland Development

DEVELOPMENT

Development activity was light in 1968, with two wells completed as Keg River oil wells in the Rainbow area. At year end a development well was nearing completion in the Strachan area, following the sour gas discovery. The well was completed in early 1969 as a producer.

PRODUCTION AND RESERVES

Wells: At the end of 1968, Aquitaine had varying interests in 76 wells of which 61 are oil wells and 15 gas wells. This represents 27.07 net oil wells and 6.94 net gas wells. Of the oil wells, 23.78 are in the Rainbow-Zama area, 2.10 in the rest of Alberta and 1.19 in Saskatchewan.

Production: Oil production in 1968 totalled 5,311,324 gross barrels or 4,414,375 net barrels after royalties, for an average production of 12,061 barrels per day, a 34% increase over 1967.

Reserves: Total recoverable reserves at year end represent a substantial increase over last year's estimate.

Crude oil reserves were in excess of 263 million barrels; this is 17% above last year's estimate, as a result of discoveries, development and the approval by the Alberta Oil and Gas Conservation Board of an integrated scheme for oil recovery enhancement by solvent and gas injection and sequential depletion of reserves, in 8 major pools in the Rainbow Field. The 1967 reserves estimate was conservative in regard to this possible development, the first of its kind in Canada.

Gas reserves were estimated at 377 million cubic feet; the bulk of the increase of 81% comes from the Strachan discovery in South Western Alberta.

Secondary Recovery: In the Rainbow area, very important steps were taken in 1968 towards maximizing recoverable reserves and production through secondary recovery. A water-flood was instituted in the Rainbow Keg River B and D pools, which has increased Aquitaine's net proven reserves by 11 million barrels and the Company's net production by 900 barrels per day.

But even more significant is the institution of a miscible flood which will ultimately affect 7 other Rainbow pools. For the first time in Alberta, these pools are integrated in a common scheme; they will be produced one at a time, thus increasing the total volume of oil recovered and improving the economics of the scheme.

To achieve this aim, a gas processing plant was built at an approximate cost of $14,000,000, in which the Company has a 45% interest. The plant was completed in 1968, and miscible solvent injection started in the Rainbow Keg River A pool.

The institution of this sophisticated secondary scheme will increase the recoverable reserves of the 7 pools by at least 27 million barrels, as compared with primary depletion. Its effect on production will be felt starting in 1969. Depending on the result of studies presently underway, this scheme may be extended to more pools in the coming years.

The Rainbow plant is also producing sulphur, and starting in 1969, sulphur sales will join oil sales as a source of revenue for the Company.

Sulphur and Utilities Building, Rainbow Processing Plant

SUMMARY OF DRILLING ACTIVITY

Exploratory Wells	Aquitaine % of costs	Aquitaine % working interest	Number
OIL WELLS			
Alberta	90	90	3
	45	45	1
	37.5	37.5	1
GAS WELLS			
Alberta	90	90	1
	45	45	3
DRY HOLES			
Alberta	90	90	3
	45	45	2
	0	20.25	1
	0	25	1
British Columbia	40	40	1
	90	90	1
Saskatchewan	25	25	1
	33.5	33.5	2
	25	25	1
	50	50	1
	0	3.955	1
	6.25	12.5	1
Nova Scotia	25	25	1
SUSPENDED OPERATIONS			
British Columbia	0	45	1
TOTAL EXPLORATORY WELLS			27
Development Wells:			
OIL WELLS			
Alberta	45	45	2
GAS WELLS			
Alberta	45	45	1
TOTAL DEVELOPMENT WELLS			3

ACREAGE HOLDINGS, DECEMBER 31, 1968

	1968 Gross	1968 Net	1967 Gross	1967 Net
Petroleum and Natural Gas Leases				
Alberta Block A	80,279	35,975	89,854	38,388
Alberta Outside Block A	215,567	95,970	117,807	57,081
Saskatchewan	299,838	62,589	154,335	42,994
British Columbia	11,091	9,853	6,368	5,603
Reservations, Drilling Reservations & Permits				
Alberta Outside Block A	694,436	476,382	766,256	438,118
Saskatchewan	2,465,881	833,484	2,272,494	682,007
British Columbia	769,992	586,502	619,696	486,242
Northwest Territories	7,476,588	5,857,659	2,442,507	2,023,929
Manitoba	1,563,105	397,011	1,538,162	384,540
Ontario	986,560	246,640	986,560	246,640
Federal Offshore Hudson Bay	68,326,857	21,096,861	2,578,963	644,741
Total Petroleum & Natural Gas	82,890,194	29,698,926	11,573,002	5,050,283
Bituminous Sands Lease	49,743	24,871	49,743	24,871
Potash Permits	0	0	72,510	36,255
Mineral Reservations (Manitoba)	414,720	311,040	0	0
Total	83,354,657	30,034,837	11,695,255	5,111,409

FINANCIAL REVIEW

Earnings

Operating revenues for the year 1968 were $10,584,862, an increase of 45% over revenues of $7,291,117 in 1967.

Cash income for 1968 totalled $6,250,478, a gain of 49% over the previous year.

Net income for 1968 amounted to $5,012,754, exceeding 1967 net income of $3,545,408 by 41%.

Capital Expenditures

In 1968 the Company continued its active program of exploration and development. Total capital expenditures reached $22,713,102, the highest level of capital spending in the Company's history.

These expenditures were largely attributable to the substantial exploration program carried out during the year and the continued development of the Rainbow field.

Financing

After splitting its 1,000,000 previously outstanding shares on a 14 to 1 basis, in October 1968 the Company consolidated its financial position by converting $25,200,000 of long term advances from its parent company, Société Nationale des Pétroles d'Aquitaine, into 1,400,000 shares at $18 per share.

Subsequently the Company issued to the Canadian public 1,100,000 shares at $14.25 per share. This issue yielded the Company an amount of $14,734,000.

The Company borrowed the remaining financial requirements from foreign banks. Long term borrowings increased by $13,657,351.

Income Tax

The Company was not subject to income taxes in 1968. On December 31, 1968 deductions of approximately $42,500,000 were available to be carried forward against future taxable income.

Investments In Other Companies

In March 1968, the company exercised its right to purchase an additional 333,132 common shares of Banff Oil Ltd., for a consideration of $3,123,113, thereby maintaining its 43.7% holding in this company.

Banff Oil Ltd.'s net profit for the year 1968 amounted to $1,050,000, an increase of 43.5% over the previous year.

Rainbow Pipe Line Company Ltd., in which Aquitaine holds a 30% interest, had a net income of $1,768,000, down from $1,908,000 in 1967, chiefly as a result of the continuation of competitive tariff policies.

Rainbow Pipeline Company Ltd.
Laying of gathering system

AQUITAINE COMPANY OF CANADA LTD.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1968

ASSETS

	1968	1967
CURRENT		
Cash	$ 446,747	$ 174,507
Short term investments	20,866,819	2,049,706
Accounts receivable	2,415,734	1,146,787
Inventory of materials and supplies, at cost	611,494	822,851
Prepaid expenses	696,127	121,855
	25,036,921	4,315,706
INVESTMENTS AND OTHER ASSETS		
Investment in other companies, at cost (Note 3)		
Banff Oil Ltd.—shares	8,026,723	4,903,610
—advances	—	530,465
Rainbow Pipe Line Company Ltd.—shares	1,800,000	1,800,000
Refundable deposits	158,188	225,751
	9,984,911	7,459,826
PROPERTY AND EQUIPMENT (Notes 2 and 4)	67,883,258	46,407,880
	$ 102,905,090	$ 58,183,412

LIABILITIES

	1968	1967
CURRENT		
Accounts payable and accrued liabilities	$ 1,779,941	$ 272,972
Current portion of long-term debt	7,481,023	2,074,228
	9,260,964	2,347,200
LONG TERM DEBT (Note 5)	41,991,276	30,415,291
ADVANCES FROM PARENT COMPANY		
Société Nationale des Pétroles d'Aquitaine	1,275,665	19,990,594
	52,527,905	52,753,085

SHAREHOLDERS' EQUITY

	1968	1967
CAPITAL STOCK (Note 9)		
Authorized—22,000,000 shares without nominal or par value (1967—3,000,000 shares)		
Issued —16,500,000 shares (1967—1,000,000 shares)	41,039,000	1,000,000
RETAINED EARNINGS	9,338,185	4,430,327
	50,377,185	5,430,327
	$ 102,905,090	$ 58,183,412

Signed on behalf of the Board

[signature] Director [signature] Director

AQUITAINE COMPANY OF CANADA LTD.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1968

INCOME	1968	1967
Production and other operating revenue, after royalties	$ 10,584,862	$ 7,291,117
Deduct		
Operating expenses	917,987	422,187
General and administrative expenses	869,799	852,796
Interest on long-term debt (net of interest income of $311,800 in 1968; $27,614 in 1967)	2,546,598	1,840,100
	4,334,384	3,115,083
Net cash from operations	6,250,478	4,176,034
Deduct non-cash expenses		
Provision for depletion	940,391	554,812
Provision for depreciation	297,333	75,814
	1,237,724	630,626
NET INCOME FOR THE YEAR (Note 2)	$ 5,012,754	$ 3,545,408
RETAINED EARNINGS		
Retained earnings at beginning of year	$ 4,430,327	$ 884,919
Net income for the year	5,012,754	3,545,408
Expenses relating to issue of capital stock	(104,896)	—
Retained earnings at end of year	$ 9,338,185	$ 4,430,327

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 1968

Source of working capital	1968	1967
Net cash income from operations	$ 6,250,478	$ 4,176,034
Advances from parent company	6,485,069	2,407,859
Long-term financing less portion included in current liabilities	13,657,351	23,795,249
Sale of capital stock	39,934,104	—
	66,327,002	30,379,142
Disposition of working capital		
Additions to petroleum and natural gas properties and related equipment	19,268,463	18,634,682
Additions to other property and equipment	3,444,639	589,927
Reduction in long-term debt	2,081,365	2,000,000
Reduction in advances from parent company	25,200,000	5,500,960
Increase in investments and other assets	2,525,084	199,450
	52,519,551	26,925,019
Increase in working capital	13,807,451	3,454,123
Working capital (deficiency) at beginning of year	1,968,506	(1,485,617)
Working capital at end of year	$ 15,775,957	$ 1,968,506

AQUITAINE COMPANY OF CANADA LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1968

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Rainbow Oil Company Inc., a wholly-owned subsidiary.

2. ACCOUNTING POLICY

The company follows the full cost method of accounting for petroleum and natural gas properties. Under this concept, all costs, including a portion of the administrative expenses, relating to the exploration for and development of oil and gas reserves are capitalized. Depletion of such costs is provided for by the unit of production method based on the estimated recoverable reserves of oil and gas. Under the full cost accounting concept, proceeds on disposal of properties and production equipment are normally applied to reduce the cost of the remaining assets.

Depreciation of production and plant equipment is provided for by the unit of production method based on the estimated recoverable reserves of oil and gas.

3. INVESTMENT IN SHARES OF OTHER COMPANIES

At December 31, 1968, the companies owned:

(a) 2,331,922 common shares of Banff Oil Ltd. The quoted market value of these shares at that date was approximately $37,019,000. Due to the number of shares involved, this market value is not necessarily indicative of the amount that could be realized if this investment were to be sold.

(b) 162,000 common shares and 16,380 preferred shares, representing 30% of the issued capital of Rainbow Pipe Line Company Ltd. The remainder of that company's shares are held by Imperial Oil Limited, Mobil Oil Canada, Ltd. and Banff Oil Ltd. There was no quoted market value for these shares at that date.

4. PROPERTY AND EQUIPMENT

	Investment at cost	Accumulated Depletion & Depreciation	Net Investment 1968	Net Investment 1967
Petroleum and natural gas properties	$53,709,870	$ 1,649,237	$52,060,633	$39,892,215
Production and plant equipment	11,831,439	322,536	11,508,903	2,972,415
Other capital assets	806,175	87,709	718,466	755,308
Work in progress	3,595,256	—	3,595,256	2,787,942
	$69,942,740	$ 2,059,482	$67,883,258	$46,407,880

5. LONG TERM DEBT

6% bank loan, secured by proceeds from production of certain properties repayable during the three year period ending December 31, 1971	$ 6,000,000
6% bank loan, repaid January 1969 (U.S. $5,000,000) (i)	5,416,183
6¾% foreign bank loans repayable during the four year period 1970-1973 (French francs 169,996,500) (i) (ii)	37,095,058
Various mortgages on real estate owned by the company	961,058
	49,472,299
Less current portion	7,481,023
	$41,991,276

(i) Recorded at the rate of exchange in effect when the funds were received by the company.

(ii) The rate of interest fluctuates in relation to the current rate of French Credit National.

6. INCOME TAXES

Under Canadian Income Tax law, the company is entitled for tax purposes to deduct intangible development costs, namely lease acquisition, exploration and drilling costs, which have been capitalized for accounting purposes. As a result, no income taxes are payable for the year ended December 31, 1968 and deductions of approximately $42,500,000 were available at December 31, 1968 in respect of such items to be carried forward against future taxable income.

The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. However, the Accounting Principles Board of the American Institute of Certified Public Accountants does not require tax allocation on timing differences arising from intangible development costs in the oil and gas industry.

The company does not believe that tax allocation in respect of intangibles is appropriate and many other companies in the oil and gas industry in Canada are in agreement with this opinion. The company therefore does not intend to provide for deferred taxes on timing differences involving intangible development costs. If deferred tax accounting had been followed by the company, deferred income taxes for 1968 would have amounted to $1,663,300 and the net income would have been reduced to $3,349,454.

The company has adopted the policy of providing for deferred income taxes on all timing differences other than those relating to intangibles, but to December 31, 1968, no such provision has been required. Allowances in respect of undepreciated capital costs amounting to approximately $15,300,000 may be claimed for tax purposes in future years.

7. COMMITMENTS AND CONTINGENCIES

In March 1966, an action was commenced in the United States Court for the Southern District of New York against the company and others, alleging violation of certain United States securities laws in connection with certain sales by Banff Oil Ltd. of its stock, including a sale of 500,000 common shares to the company. In March 1967 the Court granted the defendant's motion for summary dismissal of the plaintiff's claim. This decision was upheld upon appeal to the United States Court of Appeals for the Second Circuit, but was reversed in December 1968, insofar as it concerned the company, upon further review by the same Court of Appeals. Application has been made for appeal to the Supreme Court of the United States. The company's New York counsel, basing their opinion on the limited inquiry conducted by them, there having been no pre-trial discovery proceeding as yet, have advised that they believe the action will not succeed against the company.

Together with Mobil Oil Corporation and Imperial Oil Limited, the company has jointly and severally guaranteed indebtedness of Rainbow Pipe Line Company, Ltd. in the amount of $5,000,000.

The company is presently constructing an office building in Calgary. Approximately $5,000,000 will be required during 1969 to complete this building.

8. DIRECTORS' REMUNERATION

The aggregate remuneration paid to officers amounted to $99,455 in 1968, which includes $46,823 paid to those who are also directors of the company.

9. CAPITAL STOCK

The capital of the company was reconstituted to consist of 22,000,000 common shares without nominal or par value by supplementary letters patent dated September 9, 1968 subdividing its 1,000,000 issued common shares on the basis of 14 for 1 and authorizing an additional 6,000,000 common shares.

On October 30, 1968, 1,400,000 common shares were issued to Société Nationale des Pétroles d'Aquitaine at $18 per share, the satisfaction of the subscription price of $25,200,000 being the cancellation of indebtedness owing by the company to Société Nationale des Pétroles d'Aquitaine in such amount. On November 19, 1968 1,100,000 common shares were issued pursuant to an underwriting agreement dated October 30, 1968, between the company, Dominion Securities Corporation Limited and Greenshields Incorporated for a consideration of $14,839,000.

AUDITOR'S REPORT

The Shareholders,
Aquitaine Company of Canada Ltd.

We have examined the consolidated balance sheet of Aquitaine Company of Canada Ltd. and its subsidiary as at December 31, 1968 and the consolidated statements of income and retained earnings, and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

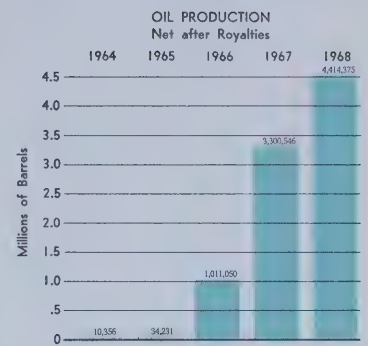
In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and disposition of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

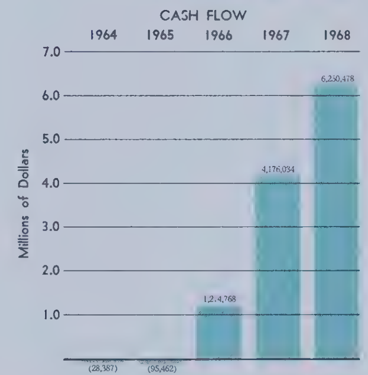
Calgary, Alberta
February 26th, 1969

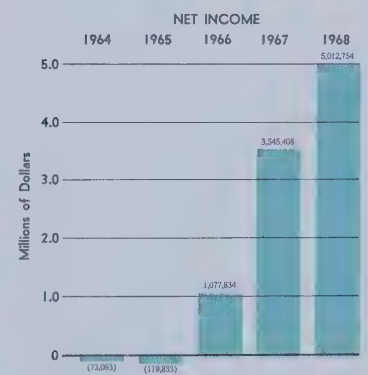
TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

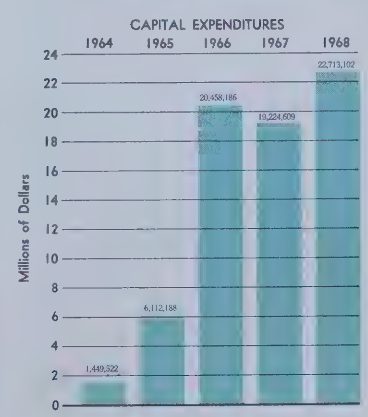
FIVE YEAR SUMMARY (1964-1968)

	1968	1967	1966	1965	1964
EARNINGS					
Gross Income	$10,584,862	$ 7,291,117	$ 2,201,111	$ 74,813	$ 24,524
Cash Flow	6,250,478	4,176,034	1,214,768	(95,462)	(28,387)
Net Income (Loss)	5,012,754	3,545,408	1,077,834	(119,833)	(73,083)
BALANCE SHEET					
Current Assets	25,036,921	4,315,706	637,008	1,107,658	321,379
Current Liabilities	9,260,964	2,347,200	2,122,625	22,221	94,740
Working Capital	15,775,957	1,968,506	(1,485,617)	1,085,437	226,639
Investment in other Companies and other Assets	9,984,911	7,459,826	7,260,378	5,910,180	4,138,243
Property, Plant & Equipment - Net	67,883,258	46,407,880	27,813,896	7,492,643	1,404,826
Long Term Debt	41,991,276	30,415,291	8,620,042	—	—
Advances from Parent Company	1,275,665	19,990,594	23,083,696	13,681,175	4,842,791
Capital Stock	41,039,000	1,000,000	1,000,000	1,000,000	1,000,000
Retained Earnings (Deficit)	9,338,185	4,430,327	884,919	(192,915)	(73,083)
PRODUCTION OF CRUDE OIL					
Net (Bbls./Day)	12,061	9,043	2,770	94	28
PROPERTIES					
Acreages - Gross	83,354,657	11,695,255	6,119,148	3,242,793	469,779
- Net	30,034,837	5,111,409	3,034,372	1,752,982	341.340
RESERVES					
Crude Oil - Bbls.	263,430,000	224,836,000	234,848,000	31,600,000	358,277
Natural Gas Liquids - Bbls.	20,050,000	17,956,000	24,525,000	363,000	—
Natural Gas - MMCF	377,000	208,000	145,500	43,500	—
Sulphur - Tons	793,000	423,000	302,000	75,000	—
CAPITAL EXPENDITURES					
Acquisitions, Exploration and Development	$22,713,102	$19,224,609	$20,458,186	$ 6,122,188	$ 1,449,522









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No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

NEW ISSUE

Sb

Aquitaine Company of Canada Ltd.

(Incorporated under the laws of Canada)

1,100,000 Common Shares

(without nominal or par value)

There is at present no public market for the common shares of the Company and the price for this offering was determined by negotiation between the Company and the Underwriters.

Applications have been made to list these common shares on The Toronto Stock Exchange and the Montreal Stock Exchange. Acceptance of the listings will be subject to the filing of required documents and evidence of satisfactory distribution both within a period of ninety days.

Price: $14.25 per share

	Price to Public	Underwriting Discount	Proceeds to Company (1)
Per Share	$14.25	$ .76	$13.49
Total	$15,675,000	$836,000	$14,839,000

(1) Before deducting expenses of issue, estimated at $75,000.

We, as principals, offer these common shares, subject to prior sale, if, as and when issued by Aquitaine Company of Canada Ltd. and accepted by us, subject to approval of all legal matters by Messrs. Phillips, Vineberg, Goodman, Phillips & Rothman on behalf of the Company and by Messrs. Campbell, Godfrey & Lewtas on our behalf. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books without notice. It is expected that definitive share certificates will be available for delivery on or about November 19, 1968.

Dominion Securities Corporation Limited

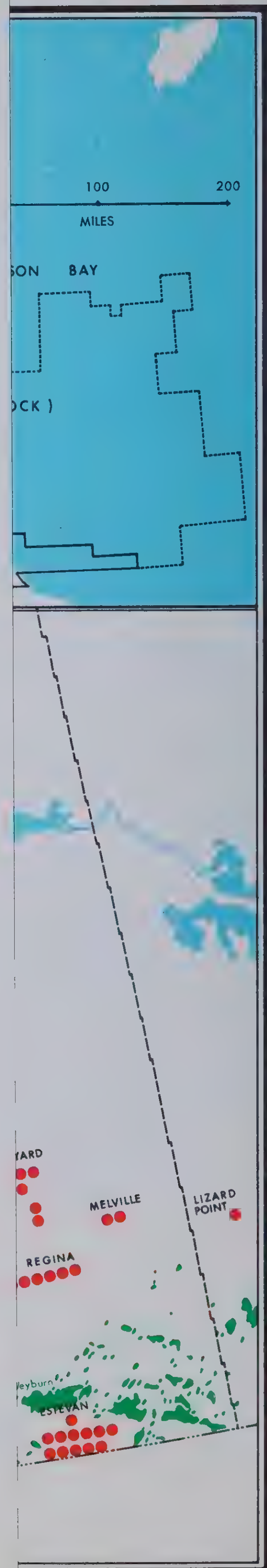
Established 1901

TORONTO MONTREAL OTTAWA VANCOUVER NEW YORK LONDON PARIS BOSTON
HALIFAX SAINT JOHN QUEBEC WINNIPEG CALGARY EDMONTON VICTORIA LONDON
KITCHENER HAMILTON BRANTFORD ST. CATHARINES FORT WILLIAM PETERBOROUGH

October 30, 1968

Printed in Canada

MAP



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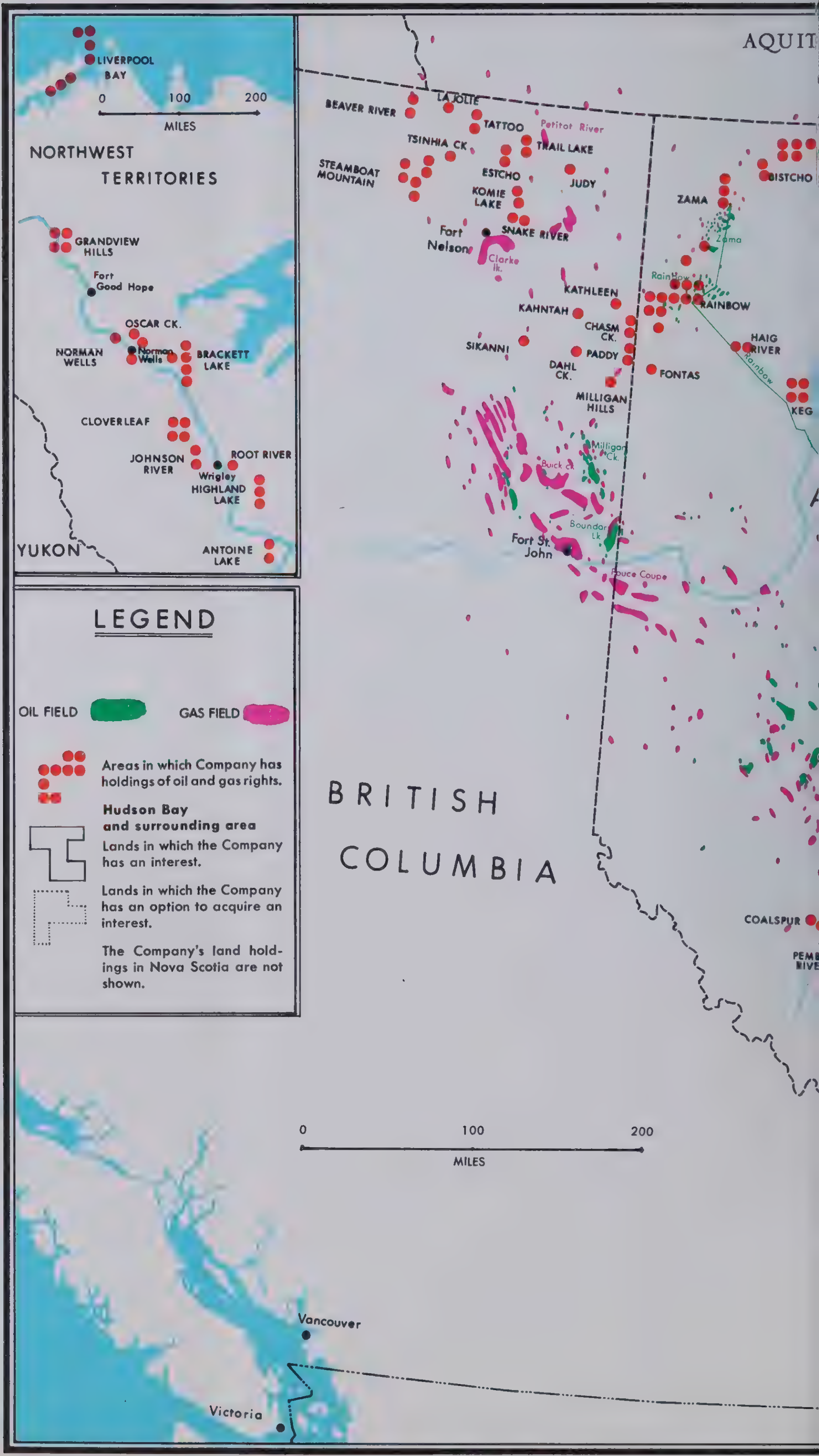
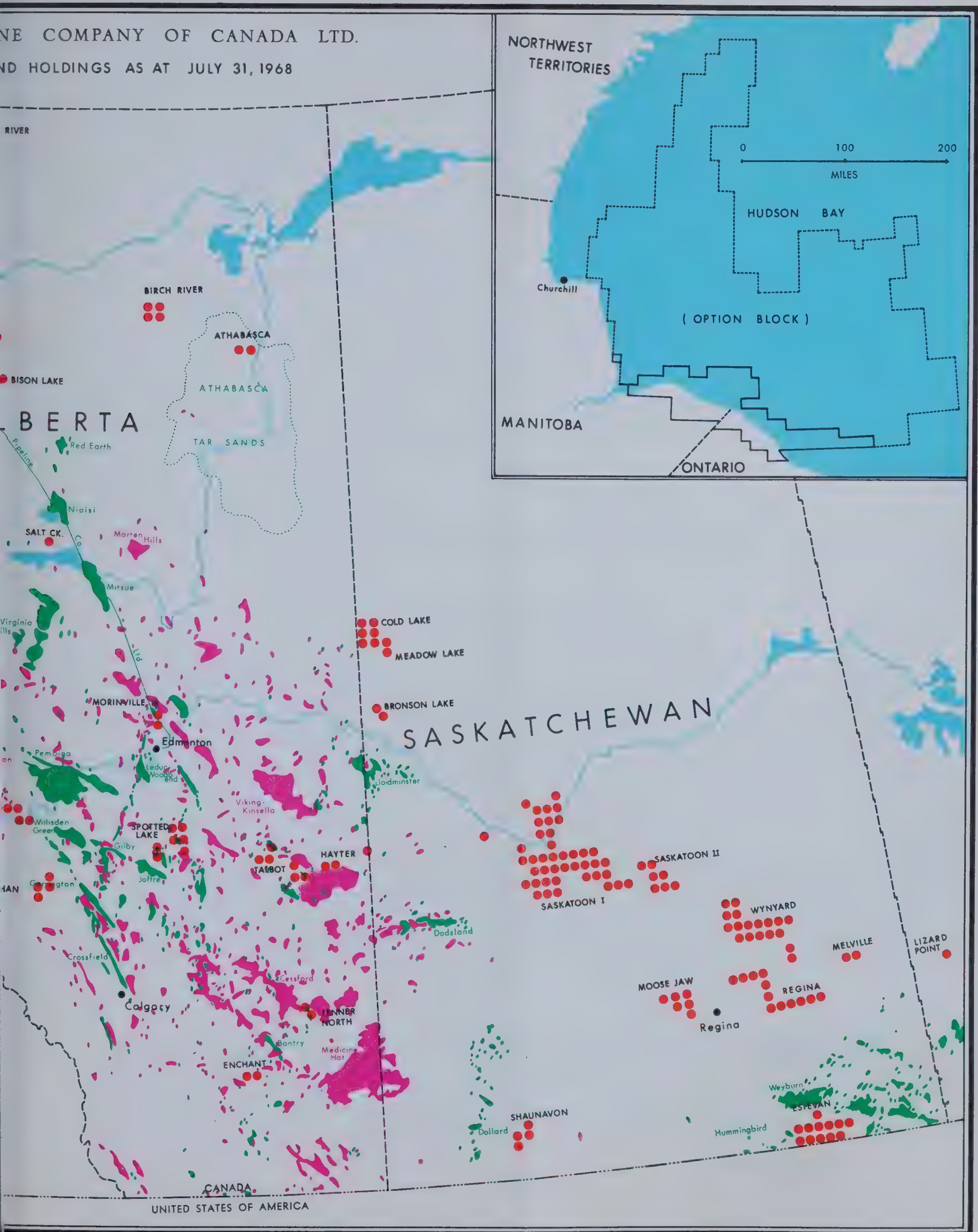


LIVERPOOL BAY
0 100 200
MILES
NORTHWEST TERRITORIES
GRANDVIEW HILLS
Fort Good Hope
OSCAR CK.
NORMAN WELLS
Norman Wells
BRACKETT LAKE
CLOVERLEAF
JOHNSON RIVER
ROOT RIVER
Wrigley
HIGHLAND LAKE
YUKON
ANTOINE LAKE
LEGEND
OIL FIELD
GAS FIELD
Areas in which Company has holdings of oil and gas rights.
Hudson Bay and surrounding area
Lands in which the Company has an interest.
Lands in which the Company has an option to acquire an interest.
The Company's land holdings in Nova Scotia are not shown.
AQUIT
BEAVER RIVER
LA JOLIE
TATTOO
Petitot River
TSINHIA CK
TRAIL LAKE
STEAMBOAT MOUNTAIN
ESTCHO
JUDY
KOMIE LAKE
Fort Nelson
SNAKE RIVER
Clarke lk.
BISTCHO
ZAMA
Zama
Rainbow
RAINBOW
KATHLEEN
KAHNTAH
CHASM CK.
SIKANNI
PADDY
DAHL CK.
FONTAS
HAIG RIVER
Rainbow
KEG
MILLIGAN HILLS
Milligan Ck.
Buick Ck
Boundary Lk
Fort St. John
Pouce Coupe
BRITISH COLUMBIA
COALSPUR
0 100 200
MILES
Vancouver
Victoria


NE COMPANY OF CANADA LTD.
ND HOLDINGS AS AT JULY 31, 1968
NORTHWEST
TERRITORIES
0
100
200
MILES
HUDSON BAY
Churchill
(OPTION BLOCK)
MANITOBA
ONTARIO
RIVER
BIRCH RIVER
ATHABASCA
BISON LAKE
ATHABASCA
TAR SANDS
BERTA
Red Earth
Pipeline
Nipisi
SALT CK.
Marten Hills
Mitsue
Virginia
COLD LAKE
MEADOW LAKE
BRONSON LAKE
SASKATCHEWAN
MORINVILLE
Edmonton
Pembina
Leduc Woodbend
Lloydminster
Viking-Kinsella
Wilisden Green
SPOTTED LAKE
Gilby
Joffre
TALBOT
HAYTER
SASKATOON II
SASKATOON I
WYNYARD
Dodsland
MELVILLE
LIZARD POINT
Crossfield
Cessford
MOOSE JAW
REGINA
Regina
Calgary
JENNER NORTH
Bantry
Medicine Hat
ENCHANT
Weyburn
ESTEVAN
SHAUNAVON
Dollard
Hummingbird
CANADA
UNITED STATES OF AMERICA

The Company

Aquitaine Company of Canada Ltd.—Société Aquitaine du Canada Ltée. (herein sometimes called the "Company") was incorporated on December 30, 1963 by Letters Patent issued under the laws of Canada. By Supplementary Letters Patent dated September 9, 1968 the capital of the Company was reconstituted to consist of 22,000,000 common shares without nominal or par value of which 15,400,000 shares are outstanding as fully paid and non-assessable shares.

The Company's head and principal office is located at 1300 Calgary House, 550 Sixth Avenue S.W., Calgary, Alberta, Canada.

History

The Company, a wholly-owned subsidiary of Société Nationale des Pétroles d'Aquitaine (herein sometimes called "SNPA"), first achieved a participation in the western Canadian oil and gas industry through the purchase in early 1964 of a substantial share interest in Banff Oil Ltd. (herein sometimes called "Banff"). In partnership with Banff, which acted as operator, the Company immediately commenced an active exploration program. In March 1965 the Aquitaine-Banff team made the first major discovery of oil at Rainbow Lake. Since this discovery the Company has continued active exploration and development in the Rainbow area where it now has a participation in 24 oil reservoirs and 29 natural gas reservoirs. Production in the Rainbow area commenced in March 1966 upon the completion of the first segment, from Rainbow to Nipisi, Alberta, of the pipeline referred to under the heading "Transportation".

At the present time the Company is actively engaged in exploration for petroleum, natural gas and various minerals in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia and the Northwest Territories. In 1968 it participated in an oil discovery at Zama and a sour gas discovery at Strachan, Alberta, both of which are outside the Rainbow area. In addition, offshore exploration is being carried on in Hudson's Bay. Producing operations are being continued in the Rainbow area and elsewhere in Alberta and Saskatchewan.

Parent Company—Société Nationale des Pétroles d'Aquitaine

All of the 15,400,000 outstanding common shares of the Company are owned of record and beneficially by SNPA with the exception of 4 common shares which are owned beneficially by SNPA but which are registered in the names of the Company's directors. SNPA is a French company, having its head office at Tour Aquitaine, 92 Courbevoie, France, of which 51% of the capital is held by a state agency, Entreprise de Recherches et d'Activités Pétrolières. The remainder of the capital of SNPA is held by more than 200,000 shareholders the majority of whom reside in France and its shares are traded on the Paris and Brussels stock exchanges.

SNPA is engaged in the business of exploration for and production of oil and gas, directly and through wholly and partially owned subsidiaries. Operations are carried on in many areas of the world aside from France and Canada, including the United States of America, the North Sea, Holland, Spain, Switzerland, Algeria, Tunisia, Libya, the Persian Gulf, Iran, Mozambique, Australia, New Zealand, New Guinea and Sabah. SNPA is also engaged in exploring for and producing sulphur, of which it is the world's third largest producer. In addition it manufactures and markets petro-chemicals, chiefly plastics. During the year ended December 31, 1967 the consolidated net sales, cash flow and net profit of SNPA and its subsidiaries exceeded $275,000,000, $145,000,000 and $50,000,000 respectively.

Banff Oil Ltd.

The Company owns 2,098,589 common shares of Banff, and the Company's wholly-owned subsidiary Rainbow Oil Company, Inc. owns an additional 233,333 shares, constituting in the aggregate approximately 44% of the outstanding shares of Banff. All 2,331,922 of the shares of Banff owned by the Company and Rainbow Oil Company, Inc. are exempt from United States Interest Equalization Tax except for 500,000 thereof owned by the Company.

Banff is engaged in the exploration for and production of petroleum, natural gas and associated substances in Alberta and Saskatchewan and in exploration in British Columbia, Manitoba and the Northwest Territories.

On May 4, 1964, the Company and Banff entered into an agreement, effective for the period from February 1, 1964 to December 31, 1964, pursuant to which Banff agreed to act as an operator to explore for and develop oil and gas reserves for their joint account and to submit to the Company all new oil and gas prospects, granting

to the Company the right to participate to the extent of 50% of the combined Banff-Aquitaine interest in projects in Manitoba, Saskatchewan and southeastern Alberta and to the extent of 90% of the combined Banff-Aquitaine interest in projects in British Columbia, the Yukon, the Northwest Territories and the remainder of Alberta. Substantially similar agreements have been entered into from time to time since 1964, the most recent of which is dated January 1, 1968 and is effective until December 31, 1968. Under this series of agreements, the Company has agreed to pay a share of Banff's administrative costs (excluding corporate expenses) approximately equal to the proportion which the Company's exploration and development costs on jointly owned prospects bear to the combined total of exploration and development costs expended thereon by the two companies.

These arrangements between the two companies permit Banff to operate as an independent oil company while at the same time performing many of the functions which would otherwise have to be carried on by the Company's exploration and production departments.

The common shares of Banff are listed on The Toronto Stock Exchange in Canada and on the American Stock Exchange in the United States. The following table sets out the high and low sales prices for the common shares on The Toronto Stock Exchange in Canadian dollars and on the American Stock Exchange in United States dollars for 1967 and for 1968 to September 13:

	The Toronto Stock Exchange (1)				American Stock Exchange (2)	
	Exempt (3)		Non-Exempt (3)		Exempt (3)	
	High	Low	High	Low	High	Low
1967..........	$18⅜	$11⅝	$13	$ 9	$17¼	$10⅝
1968(4)........	16⅛	10⅜	10½	10	14⅞	9⅝

(1) In Canadian dollars. (2) In United States dollars. (3) From United States Interest Equalization Tax. (4) To September 13.

Business and Properties of the Company

Reference is made to the accompanying map which shows the areas in which the Company has holdings of oil and gas rights.

Definitions

In the following description of the Company's petroleum and natural gas properties:

(a) one gross acre represents an acre in which the Company has any interest;

(b) one gross well represents a well in which the Company has any interest, excluding wells in which the Company has an interest only by virtue of a unit agreement;

(c) one net acre or one net working interest acre represents the full working interest ownership in one acre, or the ownership of fractional working interests in more than one acre aggregating the equivalent of the full working interest ownership in one acre; and

(d) one net well or one net working interest well represents the full working interest ownership in one well, or the ownership of fractional working interests in several wells aggregating the equivalent of the full working interest ownership in one well.

The properties of the Company are dealt with in the following two categories, which are sometimes collectively called "working interests":

(1) "leases" under which the lessee has the right to explore for and recover petroleum and natural gas from the property, with the lessee paying all development and operating costs and being entitled to the production subject to a reserved royalty; and

(2) "reservations, drilling reservations, licences and permits" which are rights to explore lands and obtain leases covering petroleum and natural gas with respect to all or part thereof.

Non-producing Petroleum and Natural Gas Acreage

A policy of exploratory acreage acquisition by the Company has provided an inventory of land not only in the Rainbow area but also on other prospects in the four western provinces, Ontario, Nova Scotia, the Arctic and elsewhere in the Northwest Territories and offshore Hudson's Bay. Much of this acreage is in the form of reservations and permits, concentrated in large blocks which lend themselves to the use of modern geophysical and geological techniques.

As at July 31, 1968 the Company had varying interests in 14,449,614 acres of non-producing petroleum and natural gas properties in Canada equivalent to 5,934,990 net working interest acres, particulars of which are set out below. An evaluation of such properties, contained in a report dated August 31, 1968 prepared by J. C. Sproule and Associates Ltd., Oil and Gas Engineering and Geological Consultants, 1009 Fourth Avenue S.W., Calgary, Alberta, indicates that the Company's interest therein is estimated to be as follows:

	Gross Acres	Company's Interest	
		Net Acres	Valuation
Petroleum and Natural Gas Leases			
Alberta	232,293	100,580	$13,312,358
Saskatchewan	316,008	61,465	286,261
British Columbia	11,091	9,853	360,930
Reservations, Drilling Reservations, Licences and Permits			
Alberta	696,376	448,146	16,213,190
Saskatchewan	1,998,477	648,009	602,952
British Columbia	706,550	523,777	5,338,708
Northwest Territories	3,220,420	2,312,944	2,286,131
Nova Scotia	714,960	172,980	280,227
Manitoba	1,562,922	397,171	393,951
Ontario	986,560	246,640	246,640
Hudson's Bay (offshore)	3,954,215	988,554	494,278
	14,399,872	5,910,119	39,815,626
Athabasca Tar Sands Lease	49,742	24,871	994,840
Total	14,449,614	5,934,990	$40,810,466

The report of J. C. Sproule and Associates Ltd. states that it should be understood that the evaluation figures do not represent the cash value of the properties concerned but rather a value to the Company. To obtain a fair market value it would, in their opinion, be necessary to discount the value by approximately 30% to 40%. The difference represents the possible risk involved and the common difference in viewpoint between buyer and seller.

Not included in the above tabulation is an option on 49,914,365 gross acres of Federal Water Permits in Hudson Bay. The Company will earn a 12½% undivided interest, or approximately 6,239,300 net acres, by doing a specified amount of seismic work on the Permits. A further option then entitles the Company to acquire an additional 12½% interest by a cash payment, which may be satisfied in part by credits for additional work. The total cost to the Company for an undivided 25% interest, or a net 12,478,600 acres, will not exceed $1,100,000. The required seismic work for the initial option is near completion and the Company will exercise the second part of the option if required. Under these circumstances the value to the Company of the option on this acreage has been valued by J. C. Sproule and Associates Ltd. in the report referred to above at approximately 35 cents per acre, or a total of $4,367,510.

A copy of the report of J. C. Sproule and Associates Ltd. may be examined at the head office of the Company during ordinary business hours during the period of primary distribution of the common shares offered by this prospectus and for a period of 30 days thereafter.

Exploration Activities

In addition to continuing the exploration and development of its properties in the Rainbow area, the Company is at present engaged in exploration in various other areas of Canada where it has acquired sizable acreage positions. Five discoveries have been made since the beginning of 1968; an oil discovery at Zama (in which the Company has a 37.5% interest); three oil discoveries in the Rainbow area (one in which the Company has a 45% interest and two in which the Company has a 90% interest); and a sour gas discovery at Strachan (in which the Company has a 90% interest) where another well has been staked one mile east of the discovery well.

During the four years and seven months ended July 31, 1968 the Company drilled, or participated in the drilling of, 143 wells of which 65 were completed as oil wells, 14 were completed as gas wells and 64 were dry and abandoned. The oil completions represented 27.1 net working interest wells and the gas completions represented 6.5 net working interest wells. Particulars of these wells are as follows:

	Total	Seven months ended July 31, 1968	Year ended December 31			
			1967	1966	1965	1964
Gross Wells						
Oil Wells						
Alberta	54	4	11	30	7	2
Saskatchewan	11	—	1	2	4	4
Total	65	4	12	32	11	6
Gas Wells						
Alberta	14	2	7	3	1	1
Dry and Abandoned						
Alberta	37	7	4	7	9	10
British Columbia	3	2	1	—	—	—
Saskatchewan	21	2	3	1	12	3
Manitoba	2	—	1	—	—	1
Nova Scotia	1	1	—	—	—	—
Total	64	12	9	8	21	14
Total Gross Wells	143	18	28	43	33	21
Net Wells						
Oil Wells	27.1	2.6	5.5	13.9	3.6	1.5
Gas Wells	6.5	1.4	3.2	1.3	0.4	0.2
Dry and Abandoned	24.3	6.5	4.4	3.7	5.5	4.2

In the immediate future the Company intends to continue exploration in the Rainbow area, the Northwest Territories, northeast British Columbia, northern and central Alberta and Saskatchewan. In addition, the Company is operator for two exploratory groups in the Hudson's Bay area and is presently conducting an extensive seismic survey offshore in Hudson's Bay itself. Lands held by the two groups total over 56 million gross acres. The Company has also recently engaged in reconnaissance surveys for minerals in western Canada and the Hudson's Bay area.

Reserves

A report dated August 21, 1968 prepared by McDaniel Consultants (1965) Ltd., 800 Western Union Building, 640 Eighth Avenue S.W., Calgary, Alberta, with respect to the Company's estimated net proven developed and probable additional reserves of crude oil, natural gas, natural gas liquids and sulphur located in the Rainbow area and elsewhere in the Province of Alberta and in the Province of Saskatchewan at July 31, 1968 shows net reserves (after royalty deductions and adjustments for interests of others) and the estimated present worth value thereof to be as follows:

	Proven Developed Reserves	Probable Additional Reserves	Total Reserves	Estimated Present Worth Value at 6% Discount Rate
Crude oil (barrels)	167,033,900	96,548,200	263,582,100	$204,882,000
Natural gas (mmcf.)	210,000	50,870	260,870	
Natural gas liquids (barrels)	14,488,500	5,567,700	20,056,200	13,834,100
Sulphur (long tons)	395,700	112,300	508,000	
				$218,716,100

The Company's net share of proven remaining reserves was forecast to generate a future net revenue of $437,429,900. This net revenue was estimated to have a present worth value of $191,816,200 employing a 6% semi-annual discount rate. The equivalent present worth value of the probable additional reserves was estimated to be $26,899,900 at a 6% semi-annual discount rate making a total of $218,716,100 as set out in the foregoing table. Essentially all of the Company's proven reserves are developed.

Although the above-mentioned future net revenue, undiscounted and discounted, reflects a reasonable value to the Company as a going concern for its proven and probable additional reserves, it is considered that the fair market value of such reserves if the properties were sold would likely be a lower amount.

For the purposes of the foregoing:

(a) "proven reserves" are considered to be those reserves which, to a high degree of certainty, are recoverable at commercial rates under present depletion methods and current operating conditions, prices and costs;

(b) "proven developed reserves" are considered to be those proven reserves which will be produced from existing wells or facilities; and

(c) "probable additional reserves" are considered to be those reserves commercially recoverable as a result of the beneficial effects which may be derived from the future institution of some form of enhanced recovery scheme or as a result of a more favourable performance of the existing recovery mechanism than that which could be deemed to be proven at this time.

The report of McDaniel Consultants (1965) Ltd. states that the estimated present worth values for the proven producing reserves were obtained by employing future production and revenue analyses. The future crude oil production was predicated on a forecast of allowable rates and/or anticipated performance characteristics of the individual wells and reservoirs. The future natural gas production was primarily based on the available processing capacity of the Rainbow area gas processing plant, the crude oil allowables and the estimated deliverability of the non-associated gas reservoirs. In those areas outside the Rainbow area where a definitive contract has not been signed or where shut-in natural gas reserves exist and no immediate market has been designated, an initial commencement date of production was assumed on the basis of the relevant factors relating to the future marketing of such natural gas reserves. The most recently posted crude oil prices were employed to derive the Company's share of gross future revenues. In the case of natural gas production the presently indicated contract natural gas prices or the most recently employed prices were used. In all cases allowances were made for the estimated capital expenditures and operating costs in arriving at the Company's share of future net revenues. The estimated present worth values were then obtained by employing a six per-cent semi-annual discount rate. The estimated present worth values for the probable additional reserves were predicated on the per unit values assigned to the proven reserves in the various areas in question with an allowance for the degree of risk and anticipated profitability of producing these additional reserves.

A copy of the report of McDaniel Consultants (1965) Ltd. may be examined at the head office of the Company during ordinary business hours during the period of primary distribution of the common shares offered by this prospectus and for a period of 30 days thereafter.

Production

(1) Oil and Gas Wells

On July 31, 1968 the Company had varying interests in 73 producing oil and gas wells and non-unitized oil and gas wells capable of production equivalent to 32.21 net working interest wells as follows:

	WELLS			
	Oil		Gas	
	Gross	Company's Net Interest	Gross	Company's Net Interest
Alberta				
Bashaw	3	0.75	—	—
Morinville	—	—	1	0.25
Rainbow	46	22.05	11	4.95
Salt Creek	2	0.90	—	—
Strachan	—	—	1	0.90
Talbot	1	0.45	—	—
Vauxhall North	—	—	1	0.39
Zama	1	0.38	—	—
Subtotal	53	24.53	14	6.49
Saskatchewan				
Bromhead	3	0.37	—	—
Midale	2	0.48	—	—
Weyburn	1	0.34	—	—
Subtotal	6	1.19	—	—
Total	59	25.72	14	6.49

(*2*) *Crude Oil*

The Company's net production of crude oil measured in barrels for the four years and seven months ended July 31, 1968 was as follows:

Year Ended December 31	Total Barrels for Period	Average Barrels per Day
1964	10,356	28
1965	34,231	94
1966	1,011,050	2,770
1967	3,300,546	9,043
Seven Months Ended July 31		
1967	1,851,575	8,692
1968	2,098,118	9,850

In the Rainbow area, miscible flooding has been instituted in the Rainbow Keg River A Pool. Subject to the approval of the Alberta Oil and Gas Conservation Board, the Company proposes to exploit sequentially six additional reservoirs in the Rainbow area by miscible flooding. It is expected that miscible flooding will result in the recovery of over 90% of the original oil in place in these pinnacle reef type reservoirs.

(*3*) *Alberta Proration*

The production of most crude oil in Alberta is prorated to market demand in accordance with a formula established by the Alberta Oil and Gas Conservation Board. Prior to 1965, allowable production from pools was largely related to the number of wells in a pool and well depth. In 1965, a new system was introduced to prorate production among pools in proportion to the recoverable reserves. As a result, new large reserve pools, such as the Rainbow Keg River reservoirs, obtain a relatively high proportion of allowable production. The new proration system will be in full effect by May 1969 and, when fully implemented, will result in a net increase in the Company's share of allowable production.

(*4*) *Markets*

The Alberta proration system, which allocates crude oil demand amongst producers, assures to the Company a share of the market for Alberta crude oil. All of the Company's production of crude oil is marketed at the well head at field prices. The average price received by the Company for its crude oil production sold during 1966 was $2.16 per barrel, during 1967 was $2.22 per barrel and during the first seven months of 1968 was $2.32 per barrel.

(*5*) *Natural Gas Processing*

The construction at an approximate cost of $14,000,000 of a gas processing plant at Rainbow in which the Company has a 45% interest and Banff a 5% interest has just been completed, and the production of natural gas liquids and sulphur has commenced. The natural gas liquids, together with the residue gas, will be used in enhanced oil recovery schemes (miscible flooding) and the sulphur will be marketed. As at July 31, 1968 the Company had expended $5,005,732 in this connection as set out in note 6 to the financial statements.

Certain gas reserves of the Company in the Rainbow area are presently shut-in but will be put into production in the future when required for secondary recovery schemes. In addition no immediate market has been designated for production from the recent sour gas discovery at Strachan referred to under the heading "Exploration Activities" which is approximately 5 miles from the nearest gas pipeline.

Expenditures on Petroleum and Natural Gas Properties

During the four years and seven months ended July 31, 1968 the Company has made the following expenditures on its petroleum and natural gas properties:

	Seven months ended July 31		Year ended December 31			
	1968	1967	1967	1966	1965	1964
Land acquisition and rentals	$ 3,226,041	$ 3,374,290	$ 6,121,045	$10,214,488	$ 1,559,733	$ 845,765
Exploration	5,060,511	3,751,404	6,839,925	4,169,462	1,724,644	351,968
Development drilling	205,289	779,809	1,465,140	4,199,203	2,051,655	118,384
Plant, production equipment and other development expenses	4,886,505	1,065,222	4,208,572	1,762,992	649,349	46,785
Total expenditures	$13,378,346	$ 8,970,725	$18,634,682	$20,346,145	$ 5,985,381	$ 1,362,902

Transportation

The Company and Banff participated with Mobil Oil Canada, Ltd. and Imperial Oil Limited in the construction of a 479-mile pipeline system for the transportation of crude oil from the Rainbow and Zama areas of northwestern Alberta to Edmonton. The pipeline is owned by Rainbow Pipe Line Company, Ltd. in which the Company has a 30% interest.

Head Office Building

The Company is presently engaged in the construction, at a cost of approximately $8,000,000, of a 20-storey office building in Calgary, Alberta. It is expected that the first 12 floors of the building will be completed by July 1, 1969 and the balance by the following September. The construction of the building is presently being financed from current foreign bank borrowings. Permanent financing on the security of the building will be arranged if and when management considers it advisable.

The building will serve as the head offices of the Company and Banff and the remaining approximately two-thirds will be leased to other tenants.

Management

Directors and Officers

The names and home addresses of the directors and officers of the Company, the positions and offices held by each and their principal occupations during the last five years are as follows:

Name and Address	Office	Principal Occupation
Gilbert Rutman, Le Petit Parc, 9, Avenue des États-Unis, Pau, France	President and Director	Director of Foreign Operations Division, Société Nationale des Pétroles d'Aquitaine.
William Drury Clark, 1033 Bel Aire Drive, Calgary, Alberta	Secretary and Director	Secretary of Aquitaine Company of Canada Ltd. since January 1966. Prior to that time he held executive positions with Dome Petroleum Limited and Cities Service Athabasca Incorporated.
André Julien Dumestre, 1039 Royal Avenue, Calgary, Alberta	Vice-President, Exploration	Vice-President, Exploration of Aquitaine Company of Canada Ltd. since July 1968. Prior to that time he held a senior position in the exploration department of Société Nationale des Pétroles d'Aquitaine.
Neil Franklin Phillips, 634 Clarke Avenue, Westmount, Quebec	Director	Partner, Phillips, Vineberg, Goodman, Phillips & Rothman, Counsel for Aquitaine Company of Canada Ltd.
Louis Justin Pradal, 4220 Britannia Drive, Calgary, Alberta	Executive Vice-President and Director	Executive Vice-President of Aquitaine Company of Canada Ltd. since June 1966. From January 1964 to June 1966 he was Vice-President of Aquitaine Company of Canada Ltd. Prior to that time he was Chief of Economic Studies, Exploration and Production, Société Nationale des Pétroles d'Aquitaine.
Michel Antoine Rapaccioli, 719 Madison Avenue, Calgary, Alberta	Treasurer	Treasurer of Aquitaine Company of Canada Ltd. since December 1966. Prior to that time he was Assistant-Treasurer of Société Nationale des Pétroles d'Aquitaine.

Shareholdings

At August 31, 1968 the directors and senior officers of the Company, as a group, owned directly or indirectly less than 0.1% of the common shares of Société Nationale des Pétroles d'Aquitaine.

Remuneration

The aggregate direct remuneration paid by the Company to its senior officers, as a group, was $123,830 for the Company's last completed financial year ended December 31, 1967 and was $82,040 for the period from January 1, 1968 to August 31, 1968.

The estimated amount of the aggregate annual benefits proposed to be paid upon retirement by the Company under its pension plan to the only one of its senior officers eligible thereunder, assuming continuation of employment at his present rate of salary until his normal retirement date, is $6,420.

The Company's directors, as such, receive no remuneration from the Company and are not entitled to any pension benefits.

Use of Proceeds

The net proceeds to be received by the Company from the sale of the common shares offered by this prospectus amounting to $14,839,000, less expenses of issue estimated at $75,000, will be used to carry on the Company's program of acquisition, exploration and development of oil, gas and other properties. It is not the Company's intention to segregate the proceeds from funds now on hand or from future income and accordingly there is no specific allocation of the proceeds to any particular project. As and when, in the opinion of the management of the Company, expenditures are required to explore or further develop the Company's properties or to acquire additional properties the co-mingled funds of the Company from all sources including the proceeds will be used for such purposes. It is presently anticipated that between July 31, 1968 and December 31, 1969 the Company will have devoted approximately $23,000,000 to additions to petroleum, natural gas and mineral properties and related equipment and $7,000,000 to additions to other property and equipment. Until so used the Company's funds will be invested on a short term basis in the best interests of the Company as determined by its management. If in the opinion of the Company's management it is in its best interests to repay all or a portion of the Company's foreign bank loans which have been incurred to finance its past program a portion of the proceeds may at some future date be devoted to this purpose.

Capitalization

	Authorized or to be authorized	Outstanding on July 31, 1968	Outstanding on August 31, 1968	Outstanding on August 31, 1968 after giving effect to this financing
Long Term Debt:				
6% secured bank loan, repayable during the three year period ending December 31, 1971 (1) . .	—	$ 6,825,000	$ 6,675,000	$ 6,675,000
Foreign bank loans (2). . . .	—	37,062,718	37,095,059	37,095,059
Various mortgages on real estate owned by the Company (3).	—	178,456	178,295	178,295
Capital Stock (4)(5):				
Common shares without nominal or par value. . . .	22,000,000 shs.	1,000,000 shs. ($1,000,000)	1,000,000 shs. ($1,000,000)	16,500,000 shs. ($41,039,000)

Notes:

(1) Secured under section 82 of the Bank Act.

(2) French currency loans repayable over the four year period 1970-1973 together with interest at a rate which fluctuates in relation to the current rate of the French Crédit National.

(3) Arrangements have been made by the Company to borrow an additional $795,096 from Central Mortgage and Housing Corporation upon the security of mortgages on real estate owned by it.

(4) In addition to the stated dollar value for its common shares as shown above the Company had retained earnings of $6,665,730 at July 31, 1968.

(5) By Supplementary Letters Patent dated September 9, 1968 the Company's 1,000,000 issued common shares were subdivided on the basis of 14 for 1 and on October 30, 1968 an additional 1,400,000 common shares were issued to SNPA for $18 per share.

Plan of Distribution

The common shares offered by this prospectus are being purchased by Dominion Securities Corporation Limited, P.O. Box 41, Toronto-Dominion Centre, Toronto, Ontario, and Greenshields Incorporated, 4 Place Ville Marie, Montreal, Quebec, (herein sometimes called "the Underwriters") as underwriters under an agreement dated October 30, 1968 between the Company and the Underwriters at the price of $13.49 per share payable in cash against delivery, subject to compliance with the necessary legal formalities and upon and subject to the terms and conditions set out in the agreement. The obligations of the Underwriters under the agreement are joint and several. In certain circumstances, as fully described in the agreement, the Underwriters have the right to withdraw from their obligation to purchase the common shares offered by this prospectus but in no event may they purchase part only thereof.

Details of the Offering

Description of Common Shares

The capital of the Company consists solely of common shares without nominal or par value of the class being offered by this prospectus. The common shares are entitled to dividends as and when declared by the board of directors; are entitled to one vote per share; are entitled, upon liquidation, to receive pro rata such assets of the Company as are distributable to shareholders; and have no pre-emptive or conversion rights. All common shares to be outstanding upon the completion of the present financing will be fully paid and non-assessable.

Dividend Policy

It has been the policy of the Company to retain earnings for use in its business instead of paying cash dividends on its common shares. The payment of dividends on the common shares to be outstanding upon the completion of this financing will be determined by the board of directors on the basis of the earnings, financial condition and financial requirements of the Company.

Material Contracts

During the last two years the Company has entered into the following contracts in addition to those in the ordinary course of business:

(1) The agreement between the Company and Banff dated January 1, 1968 (as amended by an agreement between the same parties dated April 1, 1968) referred to under the heading "Banff Oil Ltd." and a similar agreement between the same parties dated January 2, 1967.

(2) An agreement between the Company and Poole Construction Limited dated April 22, 1968 and an agreement between the Company and Janin Western Contractors Limited constituted by a tender dated May 8, 1968 and the acceptance thereof dated May 10, 1968, and amendments thereto, providing for the construction of the Company's head office building referred to under the heading "Head Office Building".

(3) The underwriting agreement between the Company and the Underwriters dated October 30, 1968 referred to under the heading "Plan of Distribution".

(4) An agreement between the Company and Mobil Oil Corporation, Imperial Oil Limited and The Bankers' Trust Company dated as of November 1, 1966 wherein the Company jointly and severally with Mobil Oil Corporation and Imperial Oil Limited unconditionally guarantees the payment by Rainbow Pipe Line Company, Ltd. of the principal of, and interest and premium (if any) on, the principal amount of $5,000,000 7½% Notes of Rainbow Pipe Line Company, Ltd. maturing November 1, 1969. The agreement is to continue until all of such 7½% Notes have been paid in full in accordance with their terms.

(5) Agreements between the Company and Mobil Oil Corporation, Imperial Oil Limited and The Royal Trust Company dated respectively as of December 15, 1966, November 1, 1967 and December 1, 1967 wherein the Company jointly and severally with Mobil Oil Corporation and Imperial Oil Limited unconditionally guarantees the payment by Rainbow Pipe Line Company, Ltd. of the principal of, and interest and premium (if any) on, the principal amount of $10,000,000 7¼% First Mortgage Sinking

Fund Bonds Series A maturing December 15, 1986, \$10,000,000 7¾% First Mortgage Sinking Fund Bonds Series B maturing December 1, 1987 and \$10,000,000 (U.S.) 7¼% First Mortgage Sinking Fund Bonds Series C maturing December 1, 1987 of Rainbow Pipe Line Company, Ltd. Each of the agreements is to continue until certain conditions have been met by Rainbow Pipe Line Company, Ltd. for the release of the guarantee.

Copies of the foregoing contracts may be inspected at the head office of the Company during ordinary business hours during the period of primary distribution of the common shares offered by this prospectus and for a period of 30 days thereafter.

Legal Proceedings

In March 1966 an action was commenced in the United States Court for the Southern District of New York by David H. Schoenbaum, allegedly on behalf of Banff, against the Company, Banff's directors and one other company alleging violation of certain United States securities laws in connection with sales by Banff of its stock including a sale to the Company of 500,000 common shares of Banff. In March 1967 the Court granted the defendants' motion for summary dismissal of the plaintiff's claim. Upon appeal to the United States Court of Appeals for the Second Circuit, the dismissal was upheld. Upon the application of the plaintiff, the appeal is currently being reviewed by the same Appeal Court. While trial counsel's investigation of the matter is not complete they believe that the action will not succeed as against the Company.

Prior Sales

On January 9, 1964 1,000,000 common shares of the Company were issued by it to SNPA for a cash consideration of \$1,000,000. On September 9, 1968 these 1,000,000 issued common shares were subdivided on the basis of 14 for 1 and on October 30, 1968 an additional 1,400,000 common shares were issued by the Company to SNPA at \$18 per share and the subscription price of \$25,200,000 was satisfied by the cancellation of indebtedness owing by the Company to SNPA in such amount. No commission was paid in connection with either sale of shares.

Auditors, Transfer Agent and Registrar

The Company's auditors are Touche, Ross, Bailey & Smart, Chartered Accountants, 600 Sixth Avenue S.W., Calgary, Alberta. Montreal Trust Company at its principal office in Calgary is the registrar and at its principal offices in Calgary, Toronto, Montreal and Vancouver is the transfer agent for the common shares of the Company.

Purchasers' Statutory Rights of Withdrawal and Rescission

Sections 63 and 64 of The Securities Act, 1966 (Ontario), sections 70 and 71 of The Securities Act, 1967 (Saskatchewan) and sections 63 and 64 of The Securities Act, 1967 (Alberta) provide, in effect, that where a security is offered to the public in the course of primary distribution:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent; and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Sections 61 and 62 of the Securities Act, 1967 (British Columbia) provide, in effect, that a purchaser has a right of rescission similar to that described in (b) above, and also that a purchaser has the right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last prospectus, together

with financial statements and reports and summaries of reports relating to the securities as filed with the British Columbia Securities Commission, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice.

Reference is made to the said Acts for the complete text of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

Auditors' Report

To the Directors,
AQUITAINE COMPANY OF CANADA LTD.

We have examined the consolidated balance sheet and pro forma consolidated balance sheet of Aquitaine Company of Canada Ltd. and its subsidiary as at July 31, 1968 and the consolidated statements of income and retained earnings and source and disposition of working capital for the four years and seven months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

(a) the consolidated balance sheet and consolidated statements of income and retained earnings and source and disposition of working capital present fairly the financial position of the companies as at July 31, 1968 and the results of their operations and the source and disposition of their working capital for the four years and seven months then ended, and

(b) the pro forma consolidated balance sheet presents fairly the financial position of the companies as at July 31, 1968 after giving effect to the changes set forth in Note 1,

in accordance with generally accepted accounting principles applied on a consistent basis as explained in Note 4 to the financial statements.

Calgary, Alberta
October 30, 1968

(Signed) Touche, Ross, Bailey & Smart
Chartered Accountants

Aquitaine Company of Canada Ltd.

Consolidated Statements of Income and Retained Earnings

	Seven months ended July 31		Year ended December 31			
	1968	1967 (unaudited)	1967	1966	1965	1964 (Note 2)
Income						
Production and other operating revenue, after royalties.......	$4,877,297	$4,040,286	$7,291,117	$2,201,111	$ 74,813	$ 24,524
Deduct:						
Operating expenses...........	328,702	224,531	422,187	207,375	34,600	11,749
General and administrative expenses....................	515,034	467,377	852,796	534,441	130,241	40,032
Interest on long-term debt and other financial expenses.....	1,382,974	964,966	1,840,100	244,527	5,434	1,131
	2,226,710	1,656,874	3,115,083	986,343	170,275	52,912
Net cash from operations.......	2,650,587	2,383,412	4,176,034	1,214,768	(95,462)	(28,388)
Deduct non-cash expenses						
Provision for depletion.......	355,713	323,640	554,812	107,975	9,087	36,973
Provision for depreciation.....	59,471	43,963	75,814	28,959	15,283	7,722
	415,184	367,603	630,626	136,934	24,370	44,695
Net income (loss) for the period (Note 4)....................	$2,235,403	$2,015,809	$3,545,408	$1,077,834	$ (119,832)	$ (73,083)
Retained Earnings						
Retained earnings (deficit) at beginning of period............	$4,430,327	$ 884,919	$ 884,919	$ (192,915)	$(2,206,826)	$ —
Net income (loss) for the period..	2,235,403	2,015,809	3,545,408	1,077,834	(119,832)	(73,083)
Adjustment in valuation of investment in shares of Banff Oil Ltd.	—	—	—	—	2,133,743	(2,133,743)
Retained earnings (deficit) at end of period....................	$6,665,730	$2,900,728	$4,430,327	$ 884,919	$ (192,915)	$(2,206,826)

The accompanying notes are an integral part of the financial statements.

Aquitaine Company of Canada Ltd.

Consolidated Statement of Source and Disposition of Working Capital

	Seven months ended July 31		Year ended December 31 (Notes 2 and 4)			
	1968	1967 (unaudited)	1967	1966	1965	1964
Source of Working Capital						
Net cash income (loss) from operations	$ 2,650,587	$ 2,383,412	$ 4,176,034	$ 1,214,768	$ (95,462)	$ (28,388)
Advances from parent company	5,394,062	—	2,407,859	9,402,521	8,838,384	4,842,791
Funds provided from long-term financing less portion included in current liabilities	12,847,952	15,911,148	23,795,249	8,620,042	—	—
Sale of capital stock	—	—	—	—	—	1,000,000
	20,892,601	18,294,560	30,379,142	19,237,331	8,742,922	5,814,403
Disposition of Working Capital						
Additions to petroleum and natural gas properties and related equipment	13,378,346	8,970,725	18,634,682	20,346,145	5,985,381	1,362,902
Additions to other property and equipment	1,148,401	68,360	589,927	112,041	126,808	86,618
Reduction in long-term debt	1,248,409	500,000	2,000,000	—	—	—
Reduction in advances from parent company	—	5,500,960	5,500,960	—	—	—
Increase in investments and other assets	3,186,092	161,079	199,450	1,350,199	1,771,936	4,138,243
	18,961,248	15,201,124	26,925,019	21,808,385	7,884,125	5,587,763
Increase (decrease) in working capital	1,931,353	3,093,436	3,454,123	(2,571,054)	858,797	226,640
Working capital (deficiency) at beginning of period	1,968,506	(1,485,617)	(1,485,617)	1,085,437	226,640	—
Working capital (deficiency) at end of period	$ 3,899,859	$ 1,607,819	$ 1,968,506	$(1,485,617)	$1,085,437	$ 226,640

The accompanying notes are an integral part of the financial statements.

Aquitaine Company of Canada Ltd.

Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet July 31, 1968

ASSETS

	Consolidated Balance Sheet	Pro Forma Consolidated Balance Sheet (Note 1)
Current		
Cash	$ 3,877,534	$18,641,534
Accounts and short-term notes receivable	3,082,952	3,082,952
Inventory of materials and supplies, at cost	736,005	736,005
Due from parent company	5,364,062	5,364,062
Prepaid expenses	294,029	294,029
	13,354,582	28,118,582
Investments and Other Assets		
Investments in other companies at cost (Note 5)		
Banff Oil Ltd.—common shares	8,026,723	8,026,723
—advances	663,958	663,958
Rainbow Pipe Line Company, Ltd.—common shares	1,800,000	1,800,000
Refundable deposits	155,237	155,237
	10,645,918	10,645,918
Property and Equipment (Notes 4 and 6)	60,519,444	60,519,444
	$84,519,944	$99,283,944

LIABILITIES

	Consolidated Balance Sheet	Pro Forma Consolidated Balance Sheet (Note 1)
Current		
Accounts payable and accrued liabilities	$ 1,987,200	$ 1,987,200
Current portion of long-term debt	7,467,523	7,467,523
	9,454,723	9,454,723
Long-Term Debt (Note 7)	42,014,834	42,014,834
Advances From Parent Company		
Société Nationale des Pétroles d'Aquitaine	25,384,657	184,657

SHAREHOLDERS' EQUITY

	Consolidated Balance Sheet	Pro Forma Consolidated Balance Sheet (Note 1)
Capital Stock		
Authorized (Note 1)		
3,000,000 common shares without nominal or par value (pro forma—22,000,000)		
Issued		
1,000,000 common shares (pro forma—16,500,000)	1,000,000	41,039,000
Retained Earnings	6,665,730	6,590,730
	7,665,730	47,629,730
	$84,519,944	$99,283,944

On behalf of the Board:

(Signed) L. Pradal, Director

(Signed) W. D. Clark, Director

The accompanying notes are an integral part of the financial statements.

Aquitaine Company of Canada Ltd.

Notes to Consolidated and Pro Forma Consolidated Financial Statements
July 31, 1968

1. Pro Forma Transactions

The pro forma consolidated balance sheet gives effect at July 31, 1968 to the following transactions:

(a) The reconstitution of the capital of the company to consist of 22,000,000 common shares without nominal or par value by supplementary letters patent dated September 9, 1968 subdividing its 1,000,000 issued common shares on the basis of 14 for 1 and authorizing an additional 6,000,000 common shares.

(b) The issue on October 30, 1968 of 1,400,000 common shares to Société Nationale des Pétroles d'Aquitaine at $18 per share and the satisfaction of the subscription price of $25,200,000 by the cancellation of indebtedness owing by the company to Société Nationale des Pétroles d'Aquitaine in such amount.

(c) The issue and sale, pursuant to an underwriting agreement between the company and Dominion Securities Corporation Limited and Greenshields Incorporated dated October 30, 1968 of 1,100,000 common shares for $14,839,000 cash and the payment and deduction from retained earnings of expenses of issue estimated at $75,000.

2. First Fiscal Period

The company's first fiscal year covered the period from the date of its incorporation December 30, 1963 to December 31, 1964.

3. Principles of Consolidation

The consolidated and pro forma consolidated financial statements include the accounts of Rainbow Oil Company, Inc. a wholly-owned subsidiary from the date of its incorporation December 19, 1967.

4. Accounting Policy

Effective January 1, 1967 the company made changes in accounting policy by adopting the following changes in accounting practice which are being adopted by many other Canadian oil and gas companies:

(a) The full cost method of accounting for petroleum and natural gas properties was adopted. Under this concept, all costs, including a portion of the administrative expenses, relating to the exploration for and development of oil and gas reserves are capitalized. Depletion of such costs is provided for by the unit of production method based on total estimated recoverable reserves of oil and gas. Under the full cost accounting concept, proceeds on disposal of properties and production equipment are normally applied to reduce the cost of the remaining assets.

(b) Depreciation of production equipment was changed to the unit of production method based on total estimated recoverable reserves of oil and gas.

The consolidated statements of income and retained earnings for the years 1964, 1965 and 1966 have been restated to reflect these changes in accounting policy. This restatement has resulted in an increase in net income from that previously reported in the years 1964, 1965 and 1966 of $81,023, $586,518, and $308,063 respectively.

5. Investment in Shares of Other Companies

The company and its wholly-owned subsidiary owned at July 31, 1968 2,331,922 common shares of Banff Oil Ltd. The quoted market value of these shares at that date was approximately $32,064,000. Due to the number of shares involved, this market value is not necessarily indicative of the amount that could be realized if this investment were to be sold.

The company owned at July 31, 1968, 162,000 common shares and 16,380 preferred shares, representing 30% of the issued capital, of Rainbow Pipe Line Company, Ltd. The remainder of its shares are held by Imperial Oil Limited, Mobil Oil Canada, Ltd. and Banff Oil Ltd. There was no quoted market value for these shares at that date.

6. Property and Equipment

	Investment at cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties	$49,321,661	$ 1,064,559	$48,257,102
Production equipment	5,380,062	88,814	5,291,248
Other capital assets	852,655	90,045	762,610
Work in progress—head office building	1,202,752	—	1,202,752
—gas processing plant	5,005,732	—	5,005,732
	$61,762,862	$ 1,243,418	$60,519,444

7. Long-Term Debt

6% bank loan, secured by proceeds from production of certain properties, repayable during the three year period ending December 31, 1971	$ 6,825,000
6% bank loan, repayable January 1969 (U.S. $5,000,000) (i)	5,416,183
6¼% foreign bank loans repayable during the four year period 1970—1973 (French francs 169,849,350) (i) (ii)	37,062,718
Various mortgages on real estate owned by the company	178,456
	49,482,357
Less current portion	7,467,523
	$42,014,834

(i) Recorded at the rate of exchange in effect when the funds were received by the company.

(ii) The rate of interest fluctuates in relation to the current rate of the French Crédit National.

8. Income Taxes

Under Canadian income tax law, the company is entitled for tax purposes to deduct intangible development costs, namely lease acquisition, exploration and drilling costs, which have been capitalized for accounting purposes. As a result, no income taxes were payable for the four years ended December 31, 1967 and the seven month period ended July 31, 1968 and deductions in respect of such items of approximately $41,100,000 were available at July 31, 1968 to be carried forward against future taxable income.

Bulletin Number 26 issued by the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. However, Opinion No. 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants does not require tax allocation on timing differences arising from intangible development costs in the oil and gas industry.

The company does not believe that tax allocation in respect of intangibles is appropriate and many other companies in the oil and gas industry in Canada are in agreement with this opinion. The company therefore does not intend to provide deferred taxes on timing differences involving intangible development costs. If deferred tax accounting had been followed by the company, deferred income taxes (totalling $2,196,584) and income would have been as follows:

Year ended December 31,	Provision for deferred income taxes	Net income (loss)
1964	$ —	$ (73,083)
1965	—	(119,832)
1966	288,834	789,000
1967	1,172,750	2,372,658
Seven months ended July 31,		
1967 (unaudited)	662,000	1,353,809
1968	735,000	1,500,403

The company has adopted the policy of providing for deferred income taxes on all timing differences other than those relating to intangibles, but to July 31, 1968 no such provision has been required. Allowances in respect of undepreciated capital costs amounting to approximately $12,000,000 may be claimed for tax purposes in future years.

9. Commitments and Contingencies

Together with Mobil Oil Corporation and Imperial Oil Limited the company has jointly and severally guaranteed indebtedness of Rainbow Pipe Line Company, Ltd. in the amount of $35,000,000.

In March 1966 an action was commenced in the United States Court for the Southern District of New York against the company and others alleging violation of certain United States securities laws in connection with certain sales by Banff Oil Ltd. of its stock including a sale of 500,000 common shares to the company. In March 1967 the Court granted the defendants' motion for summary dismissal of the plaintiff's claim. Upon appeal to the United States Court of Appeals for the Second Circuit, the dismissal was upheld. Upon the application of the plaintiff, the appeal is currently being reviewed by the same Appeal Court.

It is estimated that the company will expend approximately $28,000,000 in total on capital projects and investments during the year ending December 31, 1968, of which approximately $18,000,000 was spent to July 31, 1968.

Certificates

Dated: October 30, 1968

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia), Part 7 of The Securities Act, 1967 (Alberta), Part VIII of The Securities Act, 1967 (Saskatchewan), Part VII of The Securities Act, 1966 (Ontario), section 13 of the Securities Act (New Brunswick), the Quebec Securities Act and by the respective regulations made under said Acts.

(Signed) G. Rutman
President

(Signed) M. Rapaccioli
Treasurer

On behalf of the Board of Directors

(Signed) W. D. Clark, Director

(Signed) L. Pradal, Director

Directors

(Signed) G. Rutman

(Signed) W. D. Clark

(Signed) N. Phillips

(Signed) L. Pradal

Underwriters

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia), Part 7 of The Securities Act, 1967 (Alberta), Part VIII of The Securities Act, 1967 (Saskatchewan), Part VII of The Securities Act, 1966 (Ontario), section 13 of the Securities Act (New Brunswick), the Quebec Securities Act and by the respective regulations made under said Acts. In respect of matters which are not within our knowledge, we have relied upon the accuracy and adequacy of the foregoing.

DOMINION SECURITIES CORPORATION LIMITED

By: (Signed) F. H. Logan

GREENSHIELDS INCORPORATED

By: (Signed) B. P. Drummond

The following includes the names of every person having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of Dominion Securities Corporation Limited: D. H. Ward, S. E. Nixon, F. H. Logan, J. H. Davie, T. P. N. Jaffray, J. G. K. Strathy, A. I. Matheson, W. E. Parker and P. Mackenzie, and in the capital of Greenshields Incorporated: Peter Kilburn, Viscount Hardinge, Dudley Dawson, J. E. Brookes and W. T. Moran.